REPLY COMMENTS OF

THE MAIN STREET COALITION FOR POSTAL FAIRNESS

TO THE

PRESIDENTIAL COMMISSION

ON THE UNITED STATES POSTAL SERVICE

March 13, 2003

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Washington, D.C. 20004

The following selective reply comments are submitted in response to some of the assertions made to the Commission by various witnesses in written and verbal testimony as part of the February 20, 2003 hearing in Washington D.C. There were a large number of issues discussed and the fact that only some of them are reviewed in this paper should not be interpreted as either acceptance or rejection by Main Street of others.

I Assertion: The USPS is a business -

Several commentators said the USPS is a business or should become one. The Postal Service is a public service and was never intended to be a business. This public service mantle has not been compromised by the use of business like methods such as partnering with the mailing industry to perform such tasks as presortation and automation discounts. Additionally the USPS statutory charter does not set it up as a corporation – unlike at least one other government entity, the Tennessee Valley Authority. (cf. Statement of Michael Crew)

II Assertion: The Postal Service should be privatized -

At least one commentator urged that the USPS is part of the communications industry, should be privatized and the shares owned by the government. We call the attention of the Commission, as have other commentators, to a directive by President Eisenhower known as OMB Circular A – 76, which states in part: "In the course of governing, Government should not compete with its citizens. The competitive enterprise system, characterized by individual freedom and initiative, is the primary source of national economic strength." That was true in 1950 and it is true today. The US Government was created to perform certain essential functions for the country, not to become a commercial market enterprise. (cf. Statement of Michael Crew)

III Assertion: The Postal Service is unable to compete because of a slow, costly and burdensome regulatory framework and the forced disclosure of competively sensitive information -

Compete with whom? Competitive products are a relatively small part of its business. Priority mail is about 7% of revenue and package service about 3%. On the other hand First Class is about 55% of revenue and Standard Mail about 24%. The PRC has long had adequate confidentiality protections through protective orders for material filed in rate cases. A process which protects captive mailers should not be abandoned for a relatively minor financial competitive advantage. The process is somewhat costly, but the question to be asked is whether the expense is excessive in relation to the interests of participants and the purposes of the process. Without this expense it would not be realistic to be able to achieve the protections afforded by the process. The existing process would be substantially improved with the suggestions we advanced in our testimony before the Commission, including granting subpoena power by the PRC over the USPS. (cf. Statements of Richard Strasser and David Fineman)

IV Assertion: Negotiated Service Agreements should be explicitly provided for in a new rate setting system -

NSAs not linked to costs, but are instead volume based, would benefit larger mailers because they would receive rate reductions resulting in increased operational costs which will be passed on to the smaller mailers. Any NSAs which cover work sharing and are offered on a nondiscriminatory basis should be distinguished from those offered to a selected mailer based on volume. Congress has soundly rejected legislation that would have provided the Postal Service with the authority to enter into negotiated service agreements and that precedent should continue to be honored. (cf. Statement of the Direct Marketing Association)

V Assertion: A rate menu should be established under which a mailer could purchase only those services from the USPS which it needs -

Such contract rates would be feasible only for those classes of mail characterized by very large mailers. Most economists would agree that treating similarly situated customers differently is objectionable in utility and other “natural monopoly” industries. As a result, an individual contract that gives the (business) customer a better deal that other, similar customers get from the tariff is harmful to competition in the business sector concerned. In addition, if unregulated, such contract rates could result in revenue shortfalls that, given the breakeven constrain, would have to be made up by other mailers, as noted in item IV above regarding NSA's. (cf. Statement of the Magazine Publishers Association)

VI Assertion: The Postal Service should be allowed to set its own rates with a review after the fact by the PRC or an administrative law judge -

Too often, after a complaint has been adjudicated, the damage to the complaining mailers may very well be irreparable. If the complaint involved a rate which covered a widely used class of mail, refund provisions would be difficult if not impossible to administer. The aggrieved party would be saddled with the financial burden of compiling relevant data from the USPS and preparing the case. Finally, in most if not all rate setting monopoly regulated industries, the justification for the change rests with the proponent of the change. (cf. Statements of Murray Comarow and Magazine Publishers Association)

VII Assertion: The postal regulation functions should be combined with the regulation structure administered by the FCC -

Quite clearly cost savings would not be realized by following such an approach because the very considerable expertise of the PRC would have to be transferred to the FCC, with very probably little reduction in personnel. Under this approach a separate FCC department for postal rates would need to be created. It must also be carefully considered whether this approach would preserve the public service oriented nature of the universal postal delivery system. (cf. Statement of Murray Comarow)

VIII Assertion: The "postage stamp rate" should be adjusted so that it would vary with location or distance -

The basic advantage of "one price fits all" (uniform rates) is that a significant part of its value is that it is made equally easy to communicate across town or across the continent. In addition, distance is not a good cost criterion because transportation is a relatively small cost item for letters. (cf. Statement of Robert Cohen)

IX Assertion: The current cost based rate setting system should be scrapped for a price cap system -

Cost based rates have the advantage of discouraging if not preventing the practice of one class of mail subsidizing another (cross subsidy) which is fundamentally unfair. Below cost rates encourage inefficiency and over consumption at the expense of other mail users, given a breakeven requirement. Cost based rates provide a method of stimulating an inquiry into USPS costs and their allocation. Price caps, on the other hand, to work efficiently require the involvement of a residual claimant such as stockholders who will assert a claim to the unused funds after payment of all costs. If management does not provide funds to pay the residual claimants, new management is retained to run the enterprise. The USPS has no residual claimants. Also price caps seem to work best in an industry of continued cost declines and not in a labor intensive industry such as the Postal Service where cost reductions from automation have not been easily realized. (cf. Statements of Magazine Publishers Association and AOL Time Warner)

X Assertion: The Postal Service should be reorganized into competitive and noncompetitive operations with separate regulatory approaches for each group of products -

This approach was tried in legislation introduced in the House by Congressman John McHugh (R. NY) and the record is replete with numerous problems and difficulties. Some of the problems included the definition of the monopoly (noncompetitive class) and proposals for creating a new class of products in the competitive sector into which volume would flow from the "monopoly" class. Monopoly revenues would need to be strictly controlled to prevent their transfer into the competitive class thereby encouraging below cost or even predatory price cutting. (cf. Statement of James Campbell)